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IN THE

Supreme Court of the United States

OCTOBER TERM, 1955.

No. 191.

AMERICAN MARKING CORPORATION, a corporation, and JOHN K. JACKSON,

Petitioners,

vs.

ADOLPH GOTTSCHO, INC., a corporation,

Respondent.

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

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RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

I.

Preliminary Statement.

The petition for a writ of certiorari filed on behalf of the petitioners herein contains two omissions and at least one error. The omissions are the complete citations of the opinions below which were probably not available to petitioners' counsel when the petition was filed. The opinion of the Supreme Court of New Jersey was published in 18 N. J. 467 (1955). The opinion of the Superior Court of New Jersey was published in 35 N. J. Super. 333 (Ch. Div. 1954).

The error is contained in the opinion of the Superior Court of New Jersey, as printed on page 35 of the petition.

In the 5th line of the 4th paragraph on that page there appears the following quotation from Judge Speakman's opinion:

> "• • • and I think it is that *unequal* conduct which the court had in mind • • •"

The word *unequal* is erroneous. The trial judge used the word "*inequitable*" which should be substituted.

II.

ARGUMENT.

The Petition Should Be Dismissed for Want of a Federal Question.

It is respectfully submitted that there is no federal question here involved which would justify this Court in the exercise of its jurisdiction to grant a writ of certiorari to the Supreme Court of New Jersey.

What petitioners claim as the federal question involved is phrased by them as follows (Brief, pp. 2-3):

> "—does the issuance of a patent constitute a public disclosure so as to terminate a pre-existing cause of action predicated on the use of secrets disclosed by said patent?"

Petitioners' brief concludes (*ibid.*, p. 14) that certiorari should be granted

> "to insure the uniform administration of justice in the field of patent litigation."

This case involves unfair competition stemming from the petitioners' inequitable and unlawful appropriation of respondent's trade secrets—solely a matter of state law. There is no question of "patent litigation". Patents are only remotely and incidentally involved, as will be demonstrated below.

Petitioners invoke the jurisdiction of this Court here (Brief, p. 2) pursuant to 28 U. S. C. A. 1257 (3), upon the ground that some right held by them under the 14th Amendment has been "infringed" and upon the ground that some "constitutional power" of the United States "relating to patents" has been abridged. They do not show what right has been denied them nor what "constitutional power" of the United States relating to patents has been abridged. Their "Statement of the Question Involved" (Brief, pp. 2, 3) labels as a "federal" question whether the issuance of a patent constitutes a public disclosure of trade secrets so as to defeat an action to restrain unlawful appropriation of the trade secrets, which was commenced before any patents were issued. Other than the fact that petitioners have labelled this a federal question there seems to be no justiciable issue under the laws of the United States involved. No interpretation or construction of the United States patent laws was required or made to decide the case below.

The controversy below revolved, in part, around the second part of the question posed; namely, the effect of the issuance of a patent upon "a pre-existing cause of action" for unfair competition. There is no claim here of infringement of a patent. No question has been raised here, or was raised below, as to the validity of any patent,

nor is the construction or interpretation of the patent laws or the Constitution in controversy. The New Jersey courts could not take or exercise jurisdiction of any question arising under any act of Congress relating to patents; 28 U. S. C. A. 1338 (a); nor did they presume to do so.

It is essential to the jurisdiction of this Court, when its review of a state court judgment is sought, that it must appear affirmatively from the record that a federal question was presented for decision to the highest court of the State. *Lynch* v. *New York*, 293 U. S. 52, 54 (1934). While cases arising under the patent laws are exclusively within the jurisdiction of the federal district courts, this does not mean that every case involving or mentioning a patent necessarily arises under "any act of Congress relating to patents", or is a matter of federal law. 40 Am. Jur. PATENTS, § 170, p. 654, Cf. *Luckett* v. *Delpark*, 270 U. S. 496, at 502 (1926).

The privilege to compete with others has some limitations. *Prosser on Torts*, § 105, p. 1023 (1941). Patent laws provide protection to the originator or inventor, who may by appropriate action in the federal district courts prohibit the manufacture, sale, or use of a device which infringes his patent. The protection is limited to a fixed number of years. The law of torts prohibits copying in a manner which creates in the market avoidable confusion of commercial source. There is a further limitation—when the thing copied is a trade secret. 4 *Restatement*, TORTS, § 757, *Comment a.* One who discovers another's trade secret properly is free to disclose it or to use it in his own business. One who acquires a trade secret by breach of contract, or abuse of confidence, or by other improper means

may not use it without liability to its owner. 4 *Restatement*, TORTS, § 757. While the subject matter of a trade secret may be a device or process which is patentable, it need not be. Novelty and invention are not requisite for a trade secret as they are for patentability. 4 *Restatement*, TORTS, § 757, *Comment b.*, p. 6.

The action below was instituted in the state court on May 21, 1951, by the respondent (plaintiff below) to enjoin the petitioners (defendants below) from the manufacture, use, and sale of any device embodying trade secrets owned by the respondent (R. 1a, 2a, 3a). At or shortly after the case went to trial, some 7 patents were issued to the respondent (R. 38a). There was no claim before the trial court that the petitioners had learned the trade secrets from the patents. Nor could such a claim be honestly made, for the evidence was that all of respondent's patents issued *after* the discharge of the employee (petitioner Jackson) who appropriated the trade secrets in question. The trial court decided that the respondent commenced development of the secrets in 1948, the year in which it hired Jackson (R. 39a); that Jackson had no knowledge of the machines manufactured by the respondent (which embodied the secrets) before his employment by it (R. 40a); that any information and knowledge he obtained were acquired by him while in its employ (R. 41a). These findings were affirmed upon appeal, by the Supreme Court of New Jersey thus (18 N. J. 467, at p. 468):

> "After a lengthy trial Judge Speakman made complete factual and legal findings in the plaintiff's favor; they are embodied in an opinion reported at 35 N. J. Super. 333 (Ch. Div. 1954). We are satis-

fied that his factual findings are supported by the evidence * * *".

One of the defenses urged below by the petitioners was that, since the respondent had been granted certain patents which they urged contained or embodied some of the trade secrets in question, the issuance of the patents amounted to such a disclosure as to bar the respondent from the relief it was awarded below. This is the basis of the single argument advanced by the petitioners in support of their petition for certiorari. They have phrased it in a manner calculated to make it superficially appear as a federal question. The inherent fallacy of their argument becomes apparent upon analysis.

The patent laws grant a monopoly to an inventor, but the patent is granted only upon full disclosure of the subject matter of the patent. 35 U. S. C. A., §§ 112, 154. The significant difference between trade secrets and non-secret devices is that one who uses or copies the latter may do so with impunity, whereas one who gains knowledge of the former by the use of improper means, is subjected to liability if he exploits that knowledge. It is the employment of improper means in procuring the trade secret that forms the basis of liability in unfair competition cases. 4 *Restatement,* TORTS, § 757, *Comment a,* pp. 3, 4. The New Jersey courts below held that it was "inequitable conduct" by petitioner Jackson to use, to the respondent's detriment, the information obtained by him while in a position of trust and confidence; or, as the trial court put it, while he was in "a confidential relationship" (R. 40a). The essence of the action is breach of faith; the inequitable conduct of the defendants is the basis for relief.

As was said in *Vulcan Detinning Co.* v. *American Can Co.*, 72 N. J. Eq. 387 (E. & A. 1907), at page 395:

> "* * * too much emphasis has perhaps been placed upon the element of absolute secrecy in the process, and not enough stress has been laid upon the inequitable character of the defendant's conduct in making a use of such process that was inimical to the complainant's interests. * * * In the application of these general principles the secrecy with which a court of equity deals is not necessarily that absolute secrecy that inheres in discovery, but that qualified secrecy that arises from mutual understanding and that is required alike by good faith and by good morals."

The Supreme Court of New Jersey, in affirming the judgment of the trial court, said (18 N. J. 467, at pp. 474, 475):

> "We are not here concerned with any claim of patent infringement nor are we concerned with the rights of the public generally. Jackson learned the plaintiff's trade secrets in confidence and, in violation of his fiduciary obligations, he disclosed and used them for purposes other than his employer's benefit. * * * His conduct was grossly improper and gave rise to the plaintiff's cause of action, based on long settled equitable principles and supported by the marked changes in the attitude of the law towards the need for commercial morality."

The judgment affirmed by the Supreme Court of New Jersey contains this finding of fact (R. 49a):

> "* * * and it further appearing that the defendant John K. Jackson is the principal stockholder of the defendant American Marking Corporation whose purpose is and which is now engaged in the manufacture and sale of marking and printing machinery

in competition with the plaintiff, and that said defendants are using plaintiff's trade secrets disclosed to the said John K. Jackson in confidence while employed by the plaintiff * * *".

The courts of New Jersey have consistently enjoined former employees and others in a confidential relationship from breaching the confidence reposed in them by competing with the plaintiff by use of the information acquired during such confidential relationship. *Stone* v. *Goss and Graselli Chemical Co.*, 65 N. J. Eq. 756 (E. & A. 1903); *Vulcan Detinning Co.* v. *American Can Co., supra*; *Golden Cruller Co.* v. *Manasher*, 95 N. J. Eq. 537 (Ch. 1923); *Club Razor & Blade Mfg. Co.* v. *Bindzsus*, 131 N. J. Eq. 283; affirmed, 133 N. J. Eq. 38 (1943); *Heyden Chemical Co.* v. *Burrell & Neidig*, 2 N. J. Super. 467 (Ch. Div. 1949); *Sun Dial Corp.* v. *Rideout*, 25 N. J. Super. 591 (Ch. Div. 1953); reversed, 29 N. J. Super. 361 (App. Div. 1954); reversal affirmed, 16 N. J. 252 (1954). And *cf. Flexmir, Inc.* v. *Herman*, 138 N. J. Eq. 594 (Ch. 1946), and *Marcalus Mfg. Co.* v. *Sullivan*, 142 N. J. Eq. 434 (Ch. 1948). This is entirely a matter of state law; no federal law or federal question is involved. The reason for decisions of federal courts on this subject is that, when a claim of unfair competition is joined with "a substantial and related" claim under the patent laws, the federal district courts may exercise original jurisdiction thereof. 28 U. S. C. A. § 1338 (b). *Winthrop Chemical Co.* v. *American Pharmaceutical Co.*, 94 F. 2d 587 (2nd Cir. 1938); *Stark Bros. Nurseries & Orchards Co.* v. *Stark*, 255 U. S. 50 (1921); *Darsyn Laboratories* v. *Lenox Laboratories*, 120 F. Supp. 42 (D. Ct. N. J. 1954); affirmed on opinion below, 217 F. 2d 648 (3rd. Cir. 1954); cert. denied 348 U. S. , (May 9, 1955); *Algren Watch Findings Co.* v

Kalinsky, 197 F. 2d 69 (2nd Cir. 1952); *Hurn* v. *Oursler,* 289 U. S. 238 (1933). Because of this grant of jurisdiction, federal courts occasionally decide non-federal questions of unfair competition. The existence of such federal decisions (although applying state law) has undoubtedly prompted the petitioners to say, incorrectly, that (Brief, p. 2):

> "An examination of the *federal law* will reveal that the Courts of Appeal in the various circuits are in conflict * * *" [Emphasis added].

There is no such "federal law". As long ago as 1850, this Court, in *Wilson* v. *Sandford,* 51 U. S. 99, refused to take jurisdiction, in an action brought to set aside an assignment of a patent, on the ground that the dispute did not arise under any act of Congress nor did the decision depend upon the construction of any law in relation to patents. In that case, Chief Justice Taney said (51 U. S. 101, 102):

> "It arises out of the contract stated in the bill; and there is no act of Congress providing for or regulating contracts of this kind. The rights of the parties depend altogether upon common law and equity principles."

To the same effect are *Brown* v. *Shannon,* 61 U. S. 55 (1858); *Hartell* v. *Tilghman,* 99 U. S. 547 (1879); *Albright* v. *Teas,* 106 U. S. 613 (1883); *Dale Tile Mfg. Co.* v. *Hyatt,* 125 U. S. 46 (1888); *Felix* v. *Scharnweber,* 125 U. S. 54 (1888); *Marsh* v. *Nichols, Shepard & Co.,* 140 U. S. 344 (1891), and *Luckett* v. *Delpark,* 270 U. S. 496 (1926), all of which reaffirm the rule that an action by a patentee for royalties under a license or assignment granted by him, or for any remedy in respect of a contract permitting use

of the patent is not a suit under the patent laws of the United States, and cannot be maintained in a federal court as such.

In *Franke* v. *Wiltscheck*, 209 F. 2d 493 (1953), a recent case decided by the Court of Appeals for the Second Circuit, that court granted injunctive relief against sales agents who had learned plaintiffs' trade secrets while negotiating a sales contract. In doing so, that court considered the question whether the law to be applied was that of Massachusetts, where the product was manufactured, or of New York, where it was sold, or of New Jersey, where the confidential relationship arose. It held that the law of those three states was "happily" the same in such a case, citing *inter alia, Vulcan Detinning Co.* v. *American Can Co., supra,* and 4 *Restatement,* TORTS, § 757. In response to the contention that the secrets had been revealed by (an expired) patent, the court said (209 F. 2d 495, left-hand column):

> "Defendants argue that the heart of plaintiffs process was revealed by an expired patent, and that the improvements thereon were unpatentable applications of mechanical skill. This totally misconceives the nature of plaintiffs' right. Plaintiffs do not assert, indeed cannot assert, a property right in their development such as would entitle them to exclusive enjoyment against the world. Theirs is not a patent, but a trade secret. The essence of their action is not infringement, but breach of faith. It matters not that defendants could have gained their knowledge from a study of the expired patent and plaintiffs' publicly marketed product. The fact is that they did not. Instead they gained it from plaintiffs via their confidential relationship, and in so doing incurred a duty not to use it to plaintiffs' detriment. This duty they have breached."

This is a restatement of the law of Massachusetts, New York, and New Jersey, on the non-federal question involved. In *Darsyn Laboratories* v. *Lenox Laboratories, supra*, the district court dismissed the second count charging unfair competition because the alleged unlawful appropriation was not related to the claim for infringement, a jurisdictional requirement under 28 U. S. C. A. 1338 (b). In *Ferroline Corp.* v. *General Aniline & Film Corp.*, 207 F. 2d 912 (7th Cir. 1953), cited by petitioners (Brief, p. 14), the Court of Appeals applied what it held to be the law of New Jersey; namely, that a court of equity will aid the possessor of a trade secret by preventing its use by those who obtain the secret information by breach of contract or of a confidential relationship and by third parties who knowingly participate in such breach. But that court held that, on the facts before it, the defendant's disclosure was not a breach of confidence.

The "conflict" asserted by petitioners among the federal courts of appeals on the effect of the issuance of a patent on a pre-existing cause of action for unfair competition is not due to any divergent interpretation or application of *federal law*. Each federal court is agreed that state law is to be applied. The effect of applying the law of 48 states may cause the results to vary, as the law of the several states may vary, but it is respectfully submitted that the rule is clear: state law is to be applied and hence, there is no federal question involved. As Justice Brandeis stated, in *Brinkerhoff-Faris Trust & Savings Co.* v. *Hill*, 281 U. S. 673, 680 (1929):

> "It is true that the courts of a state have the supreme power to interpret and declare the written and unwritten laws of the state; that this court's power to review decisions of state courts is limited

> to their decisions on federal questions; and that the mere fact that a state court has rendered an erroneous decision on a question of state law, * * * does not give rise to a claim under the 14th Amendment or otherwise confer appellate jurisdiction on this court."

"There is no federal general common law" said Justice Brandeis for this Court in *Erie Railroad Co.* v. *Tompkins*, 304 U. S. 64, 78 (1938). He went on to say, further:

> "Congress has no power to declare substantive rules of common law applicable in a State whether they be local in their nature or 'general', be they commercial law or a part of the law of torts. And no clause in the Constitution purports to confer such a power upon the federal courts."

The incidental exercise of jurisdiction by federal courts over unfair competition cases "when joined with a substantial and related claim" under the patent laws, pursuant to 28 U. S. C. A. § 1338 (b), cannot convert the federal courts' decisions thereof into a federal question.

III.

Conclusion.

The petition for a writ of certiorari should be denied.

Respectfully submitted,

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Dated: July 22, 1955.

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